

ABBE, INC. AND SUBSIDIARIES
Cedar Rapids, Iowa

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	3
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	6
Consolidated Statements of Functional Expenses	8
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	12
SUPPLEMENTARY INFORMATION	31
Consolidating Statement of Financial Position	32
Consolidating Statement of Activities	36
Consolidating Statement of Functional Expenses:	
Program Services	38
Supporting Activities	40

Independent Auditors' Report

Board of Directors
Abbe, Inc.
Cedar Rapids, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Abbe, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Abbe, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Abbe, Inc. and its subsidiaries as of June 30, 2013 and 2012, and the results of their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of net assets, and cash flows of the individual affiliates, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 31, 2014

FINANCIAL STATEMENTS

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,819,455	\$ 2,715,011
Restricted cash	127,171	112,080
Certificates of deposit	1,324,805	691,486
Receivables:		
Accounts receivable, less allowance for doubtful accounts of \$110,400 in 2013 and \$209,600 in 2012	3,057,277	3,673,390
Contributions receivable, current portion	711,206	726,652
Inventory	18,637	-
Prepaid expenses	<u>340,025</u>	<u>422,364</u>
 Total current assets	 <u>9,398,576</u>	 <u>8,340,983</u>
 LONG-TERM ASSETS		
Contributions receivable, less current portion above	-	26,726
Investments	<u>2,514,875</u>	<u>2,681,621</u>
 Total long-term assets	 <u>2,514,875</u>	 <u>2,708,347</u>
 PROPERTY AND EQUIPMENT		
Land	506,648	401,198
Buildings and improvements	8,298,541	6,500,327
Leasehold improvements	556,081	429,069
Furniture and equipment	4,116,481	4,555,716
Vehicles	<u>502,519</u>	<u>340,637</u>
Total	13,980,270	12,226,947
Less accumulated depreciation	<u>(6,318,862)</u>	<u>(5,538,510)</u>
 Total property and equipment	 <u>7,661,408</u>	 <u>6,688,437</u>
 OTHER ASSETS		
Beneficial interest in assets held by community foundations	149,016	32,637
Debt-issuance costs and tax credit fees, less accumulated amortization of \$11,716 in 2013 and \$10,053 in 2012	<u>26,865</u>	<u>17,904</u>
 Total other assets	 <u>175,881</u>	 <u>50,541</u>
 TOTAL ASSETS	 <u><u>\$ 19,750,740</u></u>	 <u><u>\$ 17,788,308</u></u>

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 464,411	\$ 422,156
Accrued expenses:		
Accrued vacations	982,377	940,963
Other accrued expenses	608,856	466,743
Resident trust funds	91,593	53,027
Deferred income	344,101	387,127
Notes payable, current maturities	69,619	55,948
Due to Linn County	<u>102,842</u>	<u>102,842</u>
Total current liabilities	2,663,799	2,428,806
 LONG-TERM LIABILITIES		
Notes payable, less current maturities above	<u>2,171,946</u>	<u>1,400,747</u>
Total liabilities	<u>4,835,745</u>	<u>3,829,553</u>
 NET ASSETS		
Unrestricted	13,671,575	12,746,752
Temporarily restricted	1,225,831	1,194,414
Permanently restricted	<u>17,589</u>	<u>17,589</u>
Total net assets	<u>14,914,995</u>	<u>13,958,755</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 19,750,740</u>	 <u>\$ 17,788,308</u>

The accompanying notes are an integral part of the consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
Client and resident fees	\$ 20,225,699	\$ -	\$ -	\$ 20,225,699
Grants	1,225,705	781,125	-	2,006,830
Auxiliary	150,509	-	-	150,509
Net investment income	282,076	3,670	-	285,746
Gain on disposal of fixed assets	578	-	-	578
Rent	29,015	-	-	29,015
Contributions	172,141	-	-	172,141
Other	884,406	-	-	884,406
Equity in net loss of investee	(1,661)	-	-	(1,661)
Net assets released from restrictions	753,378	(753,378)	-	-
	<u>23,721,846</u>	<u>31,417</u>	<u>-</u>	<u>23,753,263</u>
Total public support and revenue				
	<u>23,721,846</u>	<u>31,417</u>	<u>-</u>	<u>23,753,263</u>
EXPENSES				
Program services:				
Mental health services	9,893,868	-	-	9,893,868
Care facilities	8,272,699	-	-	8,272,699
Services for the aging	4,116,687	-	-	4,116,687
	<u>22,283,254</u>	<u>-</u>	<u>-</u>	<u>22,283,254</u>
Total program services				
	<u>22,283,254</u>	<u>-</u>	<u>-</u>	<u>22,283,254</u>
Supporting activities:				
Management and general	1,814,022	-	-	1,814,022
Fundraising	29,825	-	-	29,825
	<u>1,843,847</u>	<u>-</u>	<u>-</u>	<u>1,843,847</u>
Total supporting activities				
	<u>1,843,847</u>	<u>-</u>	<u>-</u>	<u>1,843,847</u>
Total expenses				
	<u>24,127,101</u>	<u>-</u>	<u>-</u>	<u>24,127,101</u>
Change in net assets from operations	(405,255)	31,417	-	(373,838)
NON-OPERATING ACTIVITIES				
Excess assets over liabilities assumed from acquisition	1,330,078	-	-	1,330,078
	<u>1,330,078</u>	<u>-</u>	<u>-</u>	<u>1,330,078</u>
CHANGE IN NET ASSETS	924,823	31,417	-	956,240
NET ASSETS, BEGINNING OF YEAR	<u>12,746,752</u>	<u>1,194,414</u>	<u>17,589</u>	<u>13,958,755</u>
NET ASSETS, END OF YEAR	\$ 13,671,575	\$ 1,225,831	\$ 17,589	\$ 14,914,995

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 20,293,495	\$ -	\$ -	\$ 20,293,495
1,693,056	651,312	-	2,344,368
184,660	-	-	184,660
77,912	-	-	77,912
234,890	-	-	234,890
28,780	-	-	28,780
413,415	6,718	-	420,133
800,538	-	-	800,538
-	-	-	-
867,439	(867,439)	-	-
<u>24,594,185</u>	<u>(209,409)</u>	<u>-</u>	<u>24,384,776</u>
10,172,599	-	-	10,172,599
7,662,380	-	-	7,662,380
4,336,636	-	-	4,336,636
<u>22,171,615</u>	<u>-</u>	<u>-</u>	<u>22,171,615</u>
1,714,953	-	-	1,714,953
47,808	-	-	47,808
<u>1,762,761</u>	<u>-</u>	<u>-</u>	<u>1,762,761</u>
<u>23,934,376</u>	<u>-</u>	<u>-</u>	<u>23,934,376</u>
659,809	(209,409)	-	450,400
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
659,809	(209,409)	-	450,400
<u>12,086,943</u>	<u>1,403,823</u>	<u>17,589</u>	<u>13,508,355</u>
<u>\$ 12,746,752</u>	<u>\$ 1,194,414</u>	<u>\$ 17,589</u>	<u>\$ 13,958,755</u>

The accompanying notes are an integral part of the consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2013 and 2012

	2013		
	Program Services	Supporting Activities	Total
Personnel:			
Wages and salaries	\$ 12,527,656	\$ 604,627	\$ 13,132,283
Employee benefits	3,077,191	176,361	3,253,552
Payroll taxes	892,202	42,883	935,085
	<u>16,497,049</u>	<u>823,871</u>	<u>17,320,920</u>
Resident services:			
Food	370,411	-	370,411
Pharmacy and medical supplies	109,683	-	109,683
Other services	166,166	-	166,166
	<u>646,260</u>	<u>-</u>	<u>646,260</u>
Consulting fees	942,734	46,215	988,949
Staff development	24,533	8,470	33,003
Computer services	206,863	70,970	277,833
Telephone services	180,338	21,652	201,990
Professional fees	65,326	125,232	190,558
Insurance	234,671	13,321	247,992
Advertising	85,508	2,518	88,026
Dues and subscriptions	26,913	140	27,053
Other	359,382	22,858	382,240
Occupancy	1,282,874	32,792	1,315,666
Supplies	510,809	35,787	546,596
Repairs	495,133	31,681	526,814
Provision for doubtful accounts	-	445,086	445,086
Depreciation and amortization	724,861	60,199	785,060
Interest	-	73,230	73,230
Fundraising supplies	-	29,825	29,825
	<u>5,139,945</u>	<u>1,019,976</u>	<u>6,159,921</u>
Total expenses	<u>\$ 22,283,254</u>	<u>\$ 1,843,847</u>	<u>\$ 24,127,101</u>

2012		
Program Services	Supporting Activities	Total
\$ 12,003,177	\$ 630,150	\$ 12,633,327
3,130,514	207,682	3,338,196
870,058	47,050	917,108
<u>16,003,749</u>	<u>884,882</u>	<u>16,888,631</u>
479,357	-	479,357
97,927	-	97,927
195,211	-	195,211
<u>772,495</u>	<u>-</u>	<u>772,495</u>
1,127,119	30,808	1,157,927
17,752	15,635	33,387
275,456	56,208	331,664
174,243	18,358	192,601
68,834	119,104	187,938
218,487	8,754	227,241
79,226	2,914	82,140
26,048	500	26,548
391,534	26,953	418,487
1,311,274	29,499	1,340,773
557,665	35,788	593,453
533,646	40,800	574,446
-	295,030	295,030
614,087	67,455	681,542
-	82,265	82,265
-	47,808	69,519
<u>5,395,371</u>	<u>877,879</u>	<u>6,273,250</u>
<u>\$ 22,171,615</u>	<u>\$ 1,762,761</u>	<u>\$ 23,934,376</u>

The accompanying notes are an integral part of the consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 956,240	\$ 450,400
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Interest and dividends reinvested	(61,936)	(78,191)
Net realized and unrealized loss (gain) on investments	(213,477)	11,843
Provision for bad debts	445,086	295,031
Depreciation and amortization	785,060	681,542
Contributed assets from acquisition	(946,851)	-
Loss (gain) on disposal of property and equipment	222	(234,890)
Change in beneficial interest in assets held by community foundations	(3,673)	1,685
Amortization of below market interest rate loan	-	26,465
Contributions restricted for long-term purposes	(40,640)	(420,544)
Increase in restricted cash deposits	23,475	(59,054)
Effects of changes in operating assets and liabilities:		
Receivables	213,198	(398,517)
Prepaid expenses	82,339	(187,050)
Accounts payable, accrued expenses and due to Linn County	218,456	(341,046)
Deferred income	<u>(43,026)</u>	<u>81,671</u>
Net cash provided by (used in) operating activities	<u>1,414,473</u>	<u>(170,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(460,942)	(1,521,287)
Proceeds from sales of property and equipment	800	1,425,923
Proceeds from sales of investments	653,986	1,401,983
Purchases of investments and certificates of deposits	<u>(484,603)</u>	<u>(572,972)</u>
Net cash provided by (used in) investing activities	<u>(290,759)</u>	<u>733,647</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	40,640	420,544
Payments on notes payable	<u>(59,910)</u>	<u>(778,023)</u>
Net cash provided by (used in) financing activities	<u>(19,270)</u>	<u>(357,479)</u>

	<u>2013</u>	<u>2012</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,104,444	205,513
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,715,011</u>	<u>2,509,498</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,819,455</u></u>	<u><u>\$ 2,715,011</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Abbe, Inc. (the Organization) was incorporated on August 7, 1991 in the state of Iowa for the promotion of mental health care and the prevention of mental illness through community education. The Organization is the sole voting member of the following entities:

The Abbe Center for Community Mental Health, Inc. (the Center) provides outpatient psychiatric services, psychotherapy and supportive treatment services for persons with mental health problems and psychiatric illnesses with the purpose of assisting those persons to prevent hospitalization and remain independently functioning in the community. These services are provided to residents of Linn, Jones and Benton, Delaware, Buchanan, and Fayette counties and surrounding communities through service receipts from these counties as well as charges to patients and state and federal programs.

The Abbe Center for Community Care, Inc. (the Care Facility) provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Linn County and surrounding communities through per diem rates from Linn County, other counties of residence, state and federal programs, and charges to residents.

The Penn Center, Inc. provides housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Delaware County and surrounding communities through per diem rates from Delaware County, other counties of residence, state and federal programs, and charges to residents.

Chatham Oaks, Inc. and its affiliate (Chatham) provide housing and care for mentally disabled in need of supervision or assistance in their daily living. These services are provided to residents of Johnson County and surrounding communities through per diem rates from Johnson County, other counties of residence, state and federal programs, and charges to residents. On April 1, 2013, the Organization acquired Chatham as part of its mission to promote mental health care (See Note 17). Chatham's affiliate is a partnership that is engaged in renting 18 low-income housing apartment units located in Iowa City. The rentals are subject to the requirements of the United State Department of Housing and Urban Development's Home Investment Partnership Program (HOME). Under the terms of the agreement, Chatham is the general manager and receives 0.01% of the net profits, net losses and tax credits.

Aging Services, Inc. provides assistance to the elderly in the Linn County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

Pentacrest, Inc. provides assistance to the elderly in the Johnson County area through adult day care services and home-based support services. These services are provided through cost-sharing between the individuals and funding sources.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Abbe Management Corporation was established for the purpose of managing and providing behavioral health care services in Linn County, Iowa and surrounding counties. These services are provided to the managed practices under a management fee arrangement.

Witwer Center, Inc. provides a place where the elderly can meet, receive services, and take part in activities which enhance their dignity and preserve their independence. Witwer Center, Inc. is a Title VII nutrition site serving Cedar Rapids and surrounding communities with on site meals. Home delivered meals are provided for those unable to make it to the congregate meal sites. Witwer Center was contributed to Aging Services, Inc. on July 1, 2013. Witwer Center discontinued its Home Delivered Meal Program prior to its contribution to Aging Services, Inc.

Kingston Hill operates independent housing with non-health related services for older adults. Nursing care is not provided. Residents requiring nursing care are required to relocate and make arrangements to receive nursing care in another facility. Residents pay a monthly fee based on their ability to pay.

The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of all aforementioned entities. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash consists of funds that are held in trust for certain clients that participate in various programs of the Organization and the Organization's dental and health self-insurance plans.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

Certificates of deposit consist of brokered and non-brokered certificates with original maturities of more than three months.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations which generally require payment within thirty days from the invoice date. Accounts receivable are stated at the invoice amount. Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customers remittance advice or, if unspecified, to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management reviews individual accounts receivable balances that exceed ninety days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. In addition, a general valuation allowance is established based principally on historical experience.

Inventory

Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis.

Investments

Investments are generally carried at fair value and the investment income and net appreciation or depreciation in fair value of investments is reported as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets, based upon donor-imposed restrictions. Interest and dividends are recorded as income when earned.

The Organization holds a noncontrolling interest in a limited liability partnership. The partnership is accounted for using the equity method wherein the Organization's investment is increased or decreased by the Organization's share of earnings or losses, less distributions.

Property and Equipment

Purchased property and equipment are recorded at cost while contributed property and equipment are recorded at estimated fair value at the date of gift. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years. The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets. Items with a cost over \$1,000 and an expected useful life of more than one year are capitalized, as well as computer equipment even if less than \$1,000.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Beneficial Interest in Assets Held by Community Foundations

Certain funds are held by various community foundations, in designated agency endowment funds, for the benefit of the Organization. The transactions with the foundations are deemed to be reciprocal and, therefore, the value of the funds held by the foundations are recognized as an asset (beneficial interest in assets held by community foundations) by the Organization.

Other designated funds held by The Greater Cedar Rapids Community Foundation (Foundation) for the benefit of the Organization have been established by separate donors who explicitly granted variance power to the Foundation in a nonreciprocal transfer. As such, these funds are not recognized as an asset by the Organization. The distributions received from the Foundation from these funds are recognized as grant revenue by the Organization upon receipt.

Debt Issuance Costs and Tax Credit Fees

Debt-issuance costs are being amortized on a straight-line basis over the 20 year term of the loan. Tax credit fees are being amortized on a straight-line basis over the remainder of a 15 year tax compliance period.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily restricted net assets includes contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. For donor-restricted endowment funds, the Organization classifies the portion of the fund in excess of the permanently restricted amount as temporarily restricted until appropriated for expenditure by the Organization.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

Permanently restricted net assets includes contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Support and Revenue

Client and resident fee revenue is recognized, at estimated collectable amounts, in the period the services are performed, net of third-party contractual adjustments and foregone charges for services and supplies furnished to clients who cannot pay. Fees received in advance of services performed are recorded as deferred income.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received. Conditional contributions are not recorded until all conditions have been satisfied, at which time they are recognized as support. Advances received on conditional contributions are recorded as refund

Bequests are recorded when the probate court declares the will valid and the amount is determinable.

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-Operating Activities

The Organization recognizes the dissolution and addition of affiliates as non-operating activities.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Advertising

The Organization expenses advertising costs as incurred.

Income Taxes

With the exception of Abbe Management Corporation, all entities are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. In addition, all entities, with the exception of Kingston Hill, are not classified as a private foundation. Kingston Hill qualifies as an exempt private operating foundation.

All entities file returns in the U.S. federal jurisdiction. The Organization has adopted the Financial Accounting Standards Board's requirements for accounting for uncertain tax positions. The Organization determined that it was not required to record a liability related to uncertain tax positions. The federal returns of all entities for the year ended June 30, 2010 and thereafter are subject to examination by the IRS, generally for three years after they were filed.

For Abbe Management Corporation, deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are recognized only if it is more likely than not that a tax position will be realized or sustained upon examination by the relevant taxing authority. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

Chatham's affiliate is taxed as a partnership in which all income and deductions are included in the tax returns of the general and limited partners. Therefore, no income tax provision is recorded by the partnership.

NOTE 2 - UNCONDITIONAL PROMISES TO GIVE

Contributions receivable consist of the following unconditional promises to give as of June 30:

	<u>2013</u>	<u>2012</u>
United Way	\$ 651,857	\$ 651,311
Other grants and pledges	25,491	28,069
Building campaign pledges	<u>33,858</u>	<u>73,998</u>
Total unconditional promises to give	<u><u>\$ 711,206</u></u>	<u><u>\$ 753,378</u></u>
	<u>2013</u>	<u>2012</u>
Amounts due in:		
Less than one year	\$ 711,206	\$ 726,652
One to five years	<u>-</u>	<u>26,726</u>
Total	<u><u>\$ 711,206</u></u>	<u><u>\$ 753,378</u></u>

NOTE 3 - INVESTMENTS

Investments consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Long-term certificates of deposit	\$ 182,704	\$ 301,476
Money market funds	57,176	15,958
Equity mutual funds	1,243,350	1,285,535
Fixed income mutual funds	1,029,024	1,075,520
Other, carried at equity	<u>2,621</u>	<u>3,132</u>
Total investments	<u><u>\$ 2,514,875</u></u>	<u><u>\$ 2,681,621</u></u>

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 - FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

Certificates of deposit: Valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type.

Mutual funds and marketable equity securities: Valued at last sales price, if listed on a national market or exchange, or if there is no sale and the market is still considered active, at the last transaction price before year-end. In less active markets or if prices are not current, the valuation is based on quoted prices for identical or similar assets.

Money market funds are valued at the net asset value of shares held at year-end.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

Beneficial interest in assets held by community foundations: Valued at the pro-rata share of the community foundations' investment pool. The unobservable inputs are the underlying assets at the community foundations and follow their investment policies.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 195,758	\$ 1,311,751	\$ -	\$ 1,507,509
Mutual funds:				
Value funds	353,207	-	-	353,207
Index funds	319,176	-	-	319,176
Growth funds	439,471	-	-	439,471
International funds	71,545	-	-	71,545
Emerging markets	18,725	-	-	18,725
Commodity	16,642	-	-	16,642
Real estate	24,584	-	-	24,584
Total equity funds	1,243,350	-	-	1,243,350
Fixed income funds	1,029,024	-	-	1,029,024
Money market funds	-	57,176	-	57,176
Beneficial interest in assets held by community foundations	-	-	149,016	149,016
Total assets at fair value	\$ 2,468,132	\$ 1,368,927	\$ 149,016	\$ 3,986,075

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended June 30, 2013:

Balance, July 1, 2012	\$ 32,637
Contributed asset	112,706
Change in beneficial interest in assets held by community foundations	<u>3,673</u>
Balance, June 30, 2013	<u>\$ 149,016</u>

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 247,060	\$ 745,902	\$ -	\$ 992,962
Mutual funds:				
Value funds	347,923	-	-	347,923
Index funds	358,364	-	-	358,364
Growth funds	448,389	-	-	448,389
International funds	68,279	-	-	68,279
Emerging markets	17,641	-	-	17,641
Commodity	17,461	-	-	17,461
Real estate	27,478	-	-	27,478
Total equity funds	1,285,535	-	-	1,285,535
Fixed income funds	1,075,520	-	-	1,075,520
Money market funds	-	15,958	-	15,958
Beneficial interest in assets held by community foundations	-	-	32,637	32,637
Total assets at fair value	\$ 2,608,115	\$ 761,860	\$ 32,637	\$ 3,402,612

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended June 30, 2012:

Balance, July 1, 2011	\$ 34,322
Change in beneficial interest in assets held by community foundations	<u>(1,685)</u>
Balance, June 30, 2012	<u>\$ 32,637</u>

NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATIONS

The Organization has contributed funds to various community foundations in order to establish permanent designated agency endowment funds. These funds are administered by the foundations for the benefit of Aging Services, Inc. (formerly Witwer Center, Inc.), Pentacrest, Inc., and Chatham Oaks, Inc. Control over the investment or reinvestment of these funds is exercised exclusively by the foundations. A portion of the funds' earnings are made available for distribution periodically. The balance of the funds at June 30, 2013 and 2012 was \$149,016 and \$32,637, respectively. During the years ended June 30, 2013 and 2012, the Organization did not receive any distributions from these funds.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 - DEBT

Line of credit

The Organization has a line of credit agreement with a bank under which it can borrow up to \$1,000,000. Borrowings under this agreement, which expires in January 2014, are unsecured and bear interest at the bank's prime rate. It is the intention of the Organization to renew the line of credit agreement. There are no borrowings outstanding under this agreement at June 30, 2013.

Due to Linn County

	<u>2013</u>	<u>2012</u>
Obligation due to Linn County for the Center's initial reserve fund allocation. This obligation is due upon the Organization terminating certain services. The Center's contract with Linn County expires June 30, 2016, at which time the obligation will become due, unless the contract is renewed.	<u>\$ 102,842</u>	<u>\$ 102,842</u>

Notes payable

	<u>2013</u>	<u>2012</u>
Note payable to the Iowa Finance Authority with a maximum face value of \$800,000, of which \$481,090 had been drawn at June 30, 2013. Interest accrues at 1% per annum. The note requires monthly installments of \$3,594. Final payment is due in April 2025 and the note is secured by land and building. The note is recorded net of imputed interest calculated using an interest rate of 5.25%. At June 30, 2013, the principal balance of this note, net of imputed interest, was \$387,543. The discount for imputed interest is being amortized based on the maturity date of the note in 2025. The unamortized discount totals \$93,547 at June 30, 2013. As part of the agreement, there are certain covenants that the Organization must comply with.	\$ 387,543	\$ 411,329

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 - DEBT (CONTINUED)

Notes payable (continued)

	<u>2013</u>	<u>2012</u>
Note payable to the Iowa Finance Authority with a maximum face value of \$665,000, of which \$569,5600 had been drawn at June 30, 2013. Interest accrues at 1% per annum. The note requires monthly installments of \$3,166. Final payment is due in October 2029 and the note is secured by land and building. The note is recorded net of imputed interest calculated using an interest rate of 3.50%. At June 30, 2013, the principal balance of this note, net of imputed interest, was \$469,451. The discount for imputed interest is being amortized based on the maturity date of the note in 2029. The unamortized discount totals \$100,149 at June 30, 2013. As part of the agreement, there are certain covenants that the Organization must comply with.	469,451	490,546
Office facility purchased at 1510 Boyson Road with payable due to Boyson, LLC. The bond requires monthly installments of \$4,335, including interest at 6.75%. Final balloon payment is due in June 2018, secured by land and building. As part of the agreement, there are certain covenants that the Organization must comply with.	539,792	554,820
First mortgage payable, Iowa Department of Economic Development, HOME loan, due in annual installments of \$6,500, including interest at 1%, with the unpaid balance due November 2026.	596,143	-
Second mortgage payable, City of Iowa City, HOME loan, due in monthly installments of \$1,197, including interest at 3.25%, with the unpaid balance due December 2038.	<u>248,636</u>	<u>-</u>
Total	2,241,565	1,456,695
Less current portion of notes payable	<u>(69,619)</u>	<u>(55,948)</u>
Long-term portion of notes payable	<u>\$ 2,171,946</u>	<u>\$ 1,400,747</u>

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 - DEBT (CONTINUED)

Future maturities of notes payable are as follows for the years ended June 30:

2014	\$ 69,619
2015	72,932
2016	76,419
2017	80,093
2018	531,895
Later years	<u>1,410,607</u>
Total	<u>\$ 2,241,565</u>

NOTE 7 - NATURE AND AMOUNT OF PERMANENT AND TEMPORARY RESTRICTIONS

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2013</u>	<u>2012</u>
Subsequent year's operations	\$ 1,041,961	\$ 1,000,865
Subsequent year's facility usage	<u>183,871</u>	<u>193,549</u>
Total temporarily restricted net assets	<u>\$ 1,225,832</u>	<u>\$ 1,194,414</u>

Permanently restricted net assets include endowments totaling \$17,589, which must be invested in perpetuity, the income from which is expendable on the Organization's operations.

NOTE 8 - DISCLOSURES ABOUT CERTAIN CONCENTRATIONS

The Organization has certain concentrations of support and revenue. For the years ended June 30, 2013 and 2012, the source and amount of the funds and the approximate percentage of total support and revenue from these sources are as follows:

<u>Source</u>	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Medicaid	\$ 9,818,039	38%	\$ 7,943,723	33%
Linn County	1,963,358	8%	3,958,435	16%

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8 - DISCLOSURES ABOUT CERTAIN CONCENTRATIONS (CONTINUED)

Accounts receivable as of June 30, 2013 includes \$797,641 and \$9,523, respectively, from Medicaid and Linn County.

The Care Facility contract with Linn County expired December 31, 2013. The contract will not be renewed.

The Organization maintains deposits in three banks in excess of the federally insured amount. The total amount on deposit at these banks was \$4,125,583 at June 30, 2013. This consist of \$3,169,210 in repurchase agreements that are not insured by the FDIC, but are secured by the bank's bond portfolio, \$2,937,232. Management considers this to be adequate protection.

NOTE 9 - CASH FLOW DISCLOSURES

Cash paid for interest was \$73,230 and \$82,265 for the years ended June 30, 2013 and 2012, respectively. Non-cash investing and financing transactions during the years ended June 30, 2013 and 2012 included the purchase of \$39,566 and \$32,230 of property and equipment that was accrued in accounts payable at June 30, 2013 and 2012, respectively. The Organization received non-cash contributions and debt as of the year ended June 30, 2013 totaling \$1,791,631 and \$844,780, respectively from the acquisition of Chatham.

NOTE 10 - OBLIGATIONS UNDER OPERATING LEASES

The Mental Health Center leases administrative and office space under a lease expiring in June 2015. The lease requires monthly payments of \$8,333. The Center leases additional facility space under a lease expiring in December 2015. The lease requires monthly payments of \$5,604. Aging Services, Inc. leases facility space under a lease expiring in December 2016. The lease requires monthly payments of \$4,612.

The Organization is leasing various equipment under operating leases expiring between July 2013 and 2018. The leases require monthly payments totaling \$12,596.

Lease expense for the years ended June 30, 2013 and 2012 was \$617,828 and \$848,327, respectively.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10 - OBLIGATIONS UNDER OPERATING LEASES (CONTINUED)

Future minimum lease payments for operating leases that have initial noncancelable lease terms in excess of one year are as follows for the years ended June 30:

2014	\$ 473,888
2015	395,336
2016	228,419
2017	126,369
2018	<u>6,606</u>
Total	<u>\$ 1,230,618</u>

NOTE 11 - RETIREMENT PLANS

The Organization has a defined contribution retirement plan covering substantially all nonunion employees. Effective January 1, 2013, the Organization reduced their contributions to the plan from 6% to 4% for each covered employee's compensation. The Organization's contributions totaled \$396,508 and \$506,749 for the years ended June 30, 2013 and 2012, respectively. These contributions consist of a 1% and 3% employer discretionary contribution and a 3% safe harbor contribution of each covered employee's compensation, with the medical doctor class limited to \$70,000 of maximum eligible compensation.

The Care Facility also sponsors a retirement plan in accordance with a negotiated labor contract. The retirement plan covers all of their union employees. Contributions, which are based on varying rates for the hours worked by the employee, totaled \$100,226 and \$114,353 for the years ended June 30, 2013 and 2012, respectively.

Chatham sponsors a 401(k) plan which is available to employees who have completed at least three months of continuous service and are nineteen years of age or older. Eligible employees may contribute a portion of their eligible salary. Chatham may elect to match a portion of employee contributions, at the discretion of the Board of Directors. Chatham elected to make a matching contribution of 25% of employee contributions during the three months ended June 30, 2013. Total expense for the three months ended June 30, 2013 was \$9,024.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 - INCOME TAXES

Deferred tax assets consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Tax benefit of net operating loss carryforwards	\$ 21,000	\$ 28,000
Valuation allowance	<u>(21,000)</u>	<u>(28,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

A valuation allowance has been recorded on the deferred tax asset to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that the carryforwards are available to reduce taxable income.

Abbe Management Corporation has approximately \$112,000 available in net operating loss carryforwards which can be offset against future taxable income of the subsidiary. The carryforwards expire in various amounts from 2013 to 2032.

NOTE 13 - SELF-INSURED DENTAL PLAN INFORMATION

Dental Plan

Dental claims of participants and dependents are processed by Employee Benefit Systems. The plan is responsible for paying dental benefits up to a pre-established maximum amount for any one participant or dependent. Claims in excess of this maximum are covered by a policy with an insurance company.

Plan obligations at June 30, 2013 for dental claims incurred by active participants but not reported at that date are calculated based on claims submitted subsequent to year end and an estimate based on plan history for unremitted claims. There were no accrued plan obligations at June 30, 2013. Management believes this accrual is adequate based on information currently known. However, claim payments based on actual claims ultimately filed could differ materially from this estimate.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 14 - PROPERTY LIEN

In consideration of a contribution received from the City of Iowa City for the purchase and establishment of a facility to provide dependent care services to low-income persons who are elderly or disabled, a lien in the amount of \$300,000 has been established in favor of the City as lien holder upon the Pentacrest property. Repayment of the \$300,000 is required if the Organization does not continue to provide these services for a period of thirty years. The lien will expire in June 2032.

NOTE 15 - COLLECTIVE BARGAINING AGREEMENT

Substantially all of the Care Facility's nonmanagement employees are covered by a collective bargaining agreement. Subsequent to June 30, 2013 the agreement remained in full force except as modified by the terms of a shutdown agreement beginning on September 1, 2013.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Organization obtained professional services from a law firm that had representatives on the Board of Directors. Total expenses paid to this firm for the years ended June 30, 2013 and 2012 was \$41,039 and \$44,452, respectively.

The Organization engaged in transactions for property maintenance with an individual who is related to an employee. Total expenses paid to this firm for the years ended June 30, 2012 and 2011 was \$215,994 and \$309,028, respectively.

Payments of these amounts were approved by Management and the Board of Directors.

NOTE 17 - ACQUISITION OF CHATHAM OAKS, INC. AND AFFILIATE

Beginning on April 1, 2013, Chatham entered into an affiliate agreement with the Organization. The operations of Chatham are expected to be predominantly supported by per diem rates. The Organization has recognized the excess of the consideration transferred over the net assets acquired as a separate item in its 2013 consolidated statement of activities. The net identifiable assets of Chatham consisted of certificates of deposit, inventory, property and equipment, beneficial interest in community foundation, and tax credit fees totaling \$946,851.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 18 - CHANGES IN CHATHAM OAKS, INC. AND AFFILIATE'S UNRESTRICTED NET ASSETS

Changes in consolidated unrestricted net assets are as follows for the period from April 1, 2013 to June 30, 2013:

	<u>Total</u>	<u>Undesignated and Controlling Interest</u>	<u>Non - controlling Interest</u>
Balance, April 1, 2013	\$ 1,260,062	\$ 809,716	\$ 450,346
Change in net assets	<u>(39,360)</u>	<u>(21,620)</u>	<u>(17,740)</u>
Balance, June 30, 2013	<u>\$ 1,220,702</u>	<u>\$ 788,096</u>	<u>\$ 432,606</u>

NOTE 19 - RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 20 - RECLASSIFICATION OF AMOUNTS

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year format. Total assets, net assets and change in net assets were unchanged due to these reclassifications.

ABBE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 21 - SUBSEQUENT EVENTS

In September 2013, the Care Facility ceased operations.

Management evaluated subsequent events through January 31, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to January 31, 2014 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2013.

This information is an integral part of the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2013

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,281,954	\$ 2,313	\$ 5,176	\$ 15,589
Restricted cash	17,656	-	-	11,345
Certificates of deposit	377,400	-	-	-
Accounts receivable, less allowance of \$110,400	10,579	13,978	1,504,848	361,007
Contributions receivable, current portion	-	-	37,000	-
Inventory	-	-	-	-
Due from affiliates	168,777	193,704	210,244	12,561
Prepaid expenses	27,304	454	145,702	62,761
	<u>3,883,670</u>	<u>210,449</u>	<u>1,902,970</u>	<u>463,263</u>
Total current assets				
LONG-TERM ASSETS				
Contributions receivable, less current portion above, less allowance	-	-	-	-
Investments	54,836	-	2,621	-
	<u>54,836</u>	<u>-</u>	<u>2,621</u>	<u>-</u>
Total long-term assets				
PROPERTY AND EQUIPMENT				
Land	157,425	-	-	-
Buildings and improvements	800,978	-	-	-
Leasehold improvements	-	4,666	55,434	269,392
Furniture and equipment	475,766	65,768	1,495,494	429,001
Vehicles	-	-	70,196	119,417
Total	1,434,169	70,434	1,621,124	817,810
Less accumulated depreciation	(468,841)	(68,570)	(1,245,065)	(662,438)
	<u>965,328</u>	<u>1,864</u>	<u>376,059</u>	<u>155,372</u>
Total property and equipment				
OTHER ASSETS				
Beneficial interest in assets held by community foundations	-	-	-	-
Debt-issuance costs and tax credit fees, less accumulated amortization of \$11,716	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other assets				
TOTAL ASSETS	<u>\$ 4,903,834</u>	<u>\$ 212,313</u>	<u>\$ 2,281,650</u>	<u>\$ 618,635</u>

<u>Penn Center, Inc.</u>	<u>Aging Services, Inc.</u>	<u>Pentacrest, Inc.</u>	<u>Kingston Hill</u>	<u>Chatham Oaks, Inc. & Affiliate</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 8,359	\$ 91,725	\$ 16,224	\$ 20,598	377,517	\$ 3,819,455	\$ -	\$ 3,819,455
21,319	-	1,584	-	75,267	127,171	-	127,171
-	576,082	10,776	-	360,547	1,324,805	-	1,324,805
414,261	392,863	61,076	1,026	297,639	3,057,277	-	3,057,277
-	621,357	27,358	25,491	-	711,206	-	711,206
-	-	-	-	18,637	18,637	-	18,637
174,466	914,461	54,783	199	-	1,729,195	(1,729,195)	-
62,668	35,060	3,682	1,971	423	340,025	-	340,025
<u>681,073</u>	<u>2,631,548</u>	<u>175,483</u>	<u>49,285</u>	<u>1,130,030</u>	<u>11,127,771</u>	<u>(1,729,195)</u>	<u>9,398,576</u>
-	-	-	-	-	-	-	-
-	75,390	-	2,436,864	-	2,569,711	(54,836)	2,514,875
-	75,390	-	2,436,864	-	2,569,711	(54,836)	2,514,875
-	189,223	150,000	10,000	-	506,648	-	506,648
-	3,133,383	1,404,198	1,944,982	1,015,000	8,298,541	-	8,298,541
59,986	39,591	-	-	127,012	556,081	-	556,081
170,504	1,028,038	107,330	227,686	116,894	4,116,481	-	4,116,481
173,619	81,649	-	16,822	40,816	502,519	-	502,519
404,109	4,471,884	1,661,528	2,199,490	1,299,722	13,980,270	-	13,980,270
(230,315)	(1,674,216)	(537,555)	(1,401,507)	(30,355)	(6,318,862)	-	(6,318,862)
<u>173,794</u>	<u>2,797,668</u>	<u>1,123,973</u>	<u>797,983</u>	<u>1,269,367</u>	<u>7,661,408</u>	<u>-</u>	<u>7,661,408</u>
-	29,370	6,940	-	112,706	149,016	-	149,016
-	16,506	-	-	10,359	26,865	-	26,865
-	45,876	6,940	-	123,065	175,881	-	175,881
<u>\$ 854,867</u>	<u>\$ 5,550,482</u>	<u>\$ 1,306,396</u>	<u>\$ 3,284,132</u>	<u>\$ 2,522,462</u>	<u>\$ 21,534,771</u>	<u>\$ (1,784,031)</u>	<u>\$ 19,750,740</u>

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2013

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 33,348	\$ 157,477	\$ 41,813	\$ 34,432
Accrued expenses:				
Accrued vacations	211,053	-	402,324	154,178
Other accrued expenses	42,175	-	118,204	161,086
Due to affiliates	1,560,418	-	-	61,807
Resident trust funds	-	-	-	14,919
Deferred income	-	-	106,615	214,771
Notes payable, current maturities	15,985	-	-	-
Due to Linn County	-	-	102,842	-
	<u>1,862,979</u>	<u>157,477</u>	<u>771,798</u>	<u>641,193</u>
Total current liabilities				
	1,862,979	157,477	771,798	641,193
LONG-TERM LIABILITIES				
Notes payable, less current maturities above	523,806	-	-	-
	<u>2,386,785</u>	<u>157,477</u>	<u>771,798</u>	<u>641,193</u>
Total liabilities				
	2,386,785	157,477	771,798	641,193
NET ASSETS				
Unrestricted	2,517,049	(250,906)	1,472,852	(22,558)
Temporarily restricted	-	-	37,000	-
Common stock	-	40,000	-	-
Additional paid-in capital	-	265,742	-	-
Permanently restricted	-	-	-	-
	<u>2,517,049</u>	<u>54,836</u>	<u>1,509,852</u>	<u>(22,558)</u>
Total net assets				
	2,517,049	54,836	1,509,852	(22,558)
TOTAL LIABILITIES AND NET ASSETS				
	<u>\$ 4,903,834</u>	<u>\$ 212,313</u>	<u>\$ 2,281,650</u>	<u>\$ 618,635</u>

<u>Penn Center, Inc.</u>	<u>Aging Services, Inc.</u>	<u>Pentacrest, Inc.</u>	<u>Kingston Hill</u>	<u>Chatham Oaks, Inc. & Affiliate</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 32,304	\$ 27,412	\$ 9,238	\$ 44,359	84,028	\$ 464,411	\$ -	\$ 464,411
97,354	72,080	2,546	4,268	38,574	982,377	-	982,377
108,221	64,254	18,576	15,782	80,558	608,856	-	608,856
-	-	-	2,836	104,134	1,729,195	(1,729,195)	-
29,196	-	1,570	-	45,908	91,593	-	91,593
-	20,000	-	2,715	-	344,101	-	344,101
-	24,933	21,819	-	6,882	69,619	-	69,619
-	-	-	-	-	102,842	-	102,842
267,075	208,679	53,749	69,960	360,084	4,392,994	(1,729,195)	2,663,799
-	362,610	447,632	-	837,898	2,171,946	-	2,171,946
267,075	571,289	501,381	69,960	1,197,982	6,564,940	(1,729,195)	4,835,745
587,792	4,213,420	493,637	3,188,681	1,220,702	13,420,669	250,906	13,671,575
-	748,184	311,378	25,491	103,778	1,225,831	-	1,225,831
-	-	-	-	-	40,000	(40,000)	-
-	-	-	-	-	265,742	(265,742)	-
-	17,589	-	-	-	17,589	-	17,589
587,792	4,979,193	805,015	3,214,172	1,324,480	14,969,831	(54,836)	14,914,995
<u>\$ 854,867</u>	<u>\$ 5,550,482</u>	<u>\$ 1,306,396</u>	<u>\$ 3,284,132</u>	<u>\$ 2,522,462</u>	<u>\$ 21,534,771</u>	<u>\$ (1,784,031)</u>	<u>\$ 19,750,740</u>

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	Abbe, Inc.	Abbe Management Corporation	Abbe Center For Community Mental Health	Abbe Center For Community Care
PUBLIC SUPPORT AND REVENUE				
Client and resident fees	\$ -	\$ -	\$ 9,275,758	\$ 4,013,804
Administrative services	1,335,505	-	-	-
Grants	-	-	823,900	-
Auxiliary	-	-	-	84,165
Net investment income	5,183	644	122	808
Gain (loss) on disposal of fixed assets	-	-	-	200
Rent	92,315	-	-	-
Contributions	5,500	-	7,706	765
Other	6,275	597,643	223,557	21,947
Equity in net income (loss) of investee	28,080	-	(1,661)	-
	<u>1,472,858</u>	<u>598,287</u>	<u>10,329,382</u>	<u>4,121,689</u>
Total public support and revenue				
EXPENSES				
Program services:				
Mental health services	-	541,205	9,425,913	-
Care facilities	-	-	-	4,320,565
Services for the aging	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total program services	<u>-</u>	<u>541,205</u>	<u>9,425,913</u>	<u>4,320,565</u>
Supporting activities:				
Management and general	1,336,796	29,004	901,508	472,056
Fundraising	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total supporting activities	<u>1,336,796</u>	<u>29,004</u>	<u>901,508</u>	<u>472,056</u>
Total expenses	<u>1,336,796</u>	<u>570,209</u>	<u>10,327,421</u>	<u>4,792,621</u>
Change in net assets from operations	136,062	28,078	1,961	(670,932)
NON-OPERATING ACTIVITIES				
Transfer	-	-	-	-
Excess assets over liabilities assumed from acquisition	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in non-operating activities	-	-	-	-
CHANGE IN NET ASSETS	136,062	28,078	1,961	(670,932)
NET ASSETS, BEGINNING OF YEAR	<u>2,380,987</u>	<u>26,758</u>	<u>1,507,891</u>	<u>648,374</u>
NET ASSETS, END OF YEAR	<u>\$ 2,517,049</u>	<u>\$ 54,836</u>	<u>\$ 1,509,852</u>	<u>\$ (22,558)</u>

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Witwer Center, Inc.	Kingston Hill	Chatham Oaks, Inc. & Affiliate	Total	Eliminations	Consolidated
\$ 3,449,084	\$ 2,139,993	\$ 455,109	\$ -	\$ 243,438	648,513	\$ 20,225,699	\$ -	\$ 20,225,699
-	-	-	-	-	-	1,335,505	(1,335,505)	-
-	1,059,730	95,732	-	27,468	-	2,006,830	-	2,006,830
64,684	-	-	-	-	1,660	150,509	-	150,509
302	11,151	331	-	266,474	731	285,746	-	285,746
-	(222)	600	-	-	-	578	-	578
-	-	19,200	-	-	-	111,515	(82,500)	29,015
9,920	54,945	62,138	-	36,714	-	177,688	(5,547)	172,141
12,527	4,203	6,740	-	29,105	5,309	907,306	(22,900)	884,406
-	-	-	-	-	-	26,419	(28,080)	(1,661)
<u>3,536,517</u>	<u>3,269,800</u>	<u>639,850</u>	<u>-</u>	<u>603,199</u>	<u>656,213</u>	<u>25,227,795</u>	<u>(1,474,532)</u>	<u>23,753,263</u>
-	-	-	-	-	-	9,967,118	(73,250)	9,893,868
3,340,823	-	-	-	-	627,311	8,288,699	(16,000)	8,272,699
-	2,924,698	569,627	-	639,962	-	4,134,287	(17,600)	4,116,687
<u>3,340,823</u>	<u>2,924,698</u>	<u>569,627</u>	<u>-</u>	<u>639,962</u>	<u>627,311</u>	<u>22,390,104</u>	<u>(106,850)</u>	<u>22,283,254</u>
138,261	157,610	53,383	-	30,508	34,500	3,153,626	(1,339,604)	1,814,022
-	6,585	16,601	-	6,639	-	29,825	-	29,825
<u>138,261</u>	<u>164,195</u>	<u>69,984</u>	<u>-</u>	<u>37,147</u>	<u>34,500</u>	<u>3,183,451</u>	<u>(1,339,604)</u>	<u>1,843,847</u>
<u>3,479,084</u>	<u>3,088,893</u>	<u>639,611</u>	<u>-</u>	<u>677,109</u>	<u>661,811</u>	<u>25,573,555</u>	<u>(1,446,454)</u>	<u>24,127,101</u>
57,433	180,907	239	-	(73,910)	(5,598)	(345,760)	(28,078)	(373,838)
-	691,890	-	(691,890)	-	-	-	-	-
-	-	-	-	-	1,330,078	1,330,078	-	1,330,078
-	691,890	-	(691,890)	-	1,330,078	1,330,078	-	1,330,078
57,433	872,797	239	(691,890)	(73,910)	1,324,480	984,318	(28,078)	956,240
<u>530,359</u>	<u>4,106,396</u>	<u>804,776</u>	<u>691,890</u>	<u>3,288,082</u>	<u>-</u>	<u>13,985,513</u>	<u>(26,758)</u>	<u>13,958,755</u>
<u>\$ 587,792</u>	<u>\$ 4,979,193</u>	<u>\$ 805,015</u>	<u>\$ -</u>	<u>\$ 3,214,172</u>	<u>\$ 1,324,480</u>	<u>\$ 14,969,831</u>	<u>\$ (54,836)</u>	<u>\$ 14,914,995</u>

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
PROGRAM SERVICES
Year Ended June 30, 2013

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care</u>
Personnel:				
Wages and salaries	\$ -	240,912	\$ 5,726,728	\$ 2,368,689
Employee benefits	-	47,856	1,018,819	863,627
Payroll taxes	-	20,254	380,926	179,444
	<u>-</u>	<u>309,022</u>	<u>7,126,473</u>	<u>3,411,760</u>
Resident services				
Food	-	-	-	178,254
Pharmacy and medical supplies	-	-	-	74,812
Other services	-	-	-	80,244
	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,310</u>
Consulting fees	-	41,793	849,647	3,409
Staff development	-	-	10,793	7,122
Computer services	-	39,753	94,757	17,793
Telephone services	-	15,030	86,429	20,385
Professional fees	-	1,191	9,125	18,176
Insurance	-	1,040	86,637	49,900
Advertising	-	16,191	29,880	8,378
Dues and subscriptions	-	-	18,175	90
Other	-	2,726	112,512	8,526
Occupancy	-	86,830	562,151	263,193
Supplies	-	17,588	93,277	48,587
Repairs	-	8,526	148,299	83,512
Depreciation and amortization	-	1,515	197,758	46,424
	<u>-</u>	<u>232,183</u>	<u>2,299,440</u>	<u>575,495</u>
Total program services	<u>\$ -</u>	<u>\$ 541,205</u>	<u>\$ 9,425,913</u>	<u>\$ 4,320,565</u>

<u>Penn Center, Inc.</u>	<u>Aging Services, Inc.</u>	<u>Pentacrest, Inc.</u>	<u>Kingston Hill</u>	<u>Chatham Oaks, Inc. & Affiliate</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 1,858,139	\$ 1,461,944	\$ 236,993	\$ 283,125	351,126	\$ 12,527,656	\$ -	\$ 12,527,656
638,633	335,773	50,516	57,564	64,403	3,077,191	-	3,077,191
132,406	114,593	18,124	20,814	25,641	892,202	-	892,202
<u>2,629,178</u>	<u>1,912,310</u>	<u>305,633</u>	<u>361,503</u>	<u>441,170</u>	<u>16,497,049</u>	<u>-</u>	<u>16,497,049</u>
146,362	-	-	-	45,795	370,411	-	370,411
32,147	-	-	-	2,724	109,683	-	109,683
51,057	-	24,301	-	10,564	166,166	-	166,166
<u>229,566</u>	<u>-</u>	<u>24,301</u>	<u>-</u>	<u>59,083</u>	<u>646,260</u>	<u>-</u>	<u>646,260</u>
-	22,724	34,476	3,085	5,500	960,634	(17,900)	942,734
2,635	2,945	410	573	55	24,533	-	24,533
16,492	25,430	3,859	3,509	5,270	206,863	-	206,863
22,715	23,933	3,015	5,855	2,976	180,338	-	180,338
7,253	6,251	-	12,436	10,894	65,326	-	65,326
30,787	25,866	11,243	15,299	13,899	234,671	-	234,671
6,543	7,220	4,039	8,060	5,397	85,708	(200)	85,508
2,985	3,793	1,832	38	-	26,913	-	26,913
15,655	213,298	1,432	5,208	1,275	360,632	(1,250)	359,382
190,694	144,131	34,782	67,573	21,020	1,370,374	(87,500)	1,282,874
47,495	174,886	45,924	68,558	14,494	510,809	-	510,809
96,143	79,736	18,195	45,065	15,657	495,133	-	495,133
42,682	282,175	80,486	43,200	30,621	724,861	-	724,861
<u>482,079</u>	<u>1,012,388</u>	<u>239,693</u>	<u>278,459</u>	<u>127,058</u>	<u>5,246,795</u>	<u>(106,850)</u>	<u>5,139,945</u>
<u>\$ 3,340,823</u>	<u>\$ 2,924,698</u>	<u>\$ 569,627</u>	<u>\$ 639,962</u>	<u>\$ 627,311</u>	<u>\$ 22,390,104</u>	<u>\$ (106,850)</u>	<u>\$ 22,283,254</u>

ABBE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
SUPPORTING ACTIVITIES
Year Ended June 30, 2013

	<u>Abbe, Inc.</u>	<u>Abbe Management Corporation</u>	<u>Abbe Center For Community Mental Health</u>	<u>Abbe Center For Community Care</u>
Personnel:				
Wages and salaries	\$ 604,627	\$ -	\$ -	\$ -
Employee benefits	176,361	-	-	-
Payroll taxes	42,883	-	-	-
	<u>823,871</u>	<u>-</u>	<u>-</u>	<u>-</u>
Resident services				
Food	-	-	-	-
Pharmacy and medical supplies	-	-	-	-
Other services	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Administrative fees	-	29,004	464,004	474,997
Consulting fees	46,215	-	-	-
Staff development	8,470	-	-	-
Computer services	70,970	-	-	-
Telephone services	21,652	-	-	-
Professional fees	125,232	-	-	-
Insurance	13,321	-	-	-
Advertising	2,518	-	-	-
Dues and subscriptions	140	-	-	-
Other	26,957	-	-	-
Occupancy	32,792	-	-	-
Supplies	35,787	-	-	-
Repairs	31,681	-	-	-
Provision for doubtful accounts	-	-	437,504	(2,941)
Depreciation and amortization	60,199	-	-	-
Interest	36,991	-	-	-
Fundraising supplies	-	-	-	-
	<u>512,925</u>	<u>29,004</u>	<u>901,508</u>	<u>472,056</u>
Total supporting services	<u><u>\$ 1,336,796</u></u>	<u><u>\$ 29,004</u></u>	<u><u>\$ 901,508</u></u>	<u><u>\$ 472,056</u></u>

Penn Center, Inc.	Aging Services, Inc.	Pentacrest, Inc.	Kingston Hill	Chatham Oaks, Inc. & Affiliate	Total	Eliminations	Consolidated
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 604,627	\$ -	\$ 604,627
-	-	-	-	-	176,361	-	176,361
-	-	-	-	-	42,883	-	42,883
-	-	-	-	-	823,871	-	823,871
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
137,004	138,000	30,996	27,000	34,500	1,335,505	(1,335,505)	-
-	-	-	-	-	46,215	-	46,215
-	-	-	-	-	8,470	-	8,470
-	-	-	-	-	70,970	-	70,970
-	-	-	-	-	21,652	-	21,652
-	-	-	-	-	125,232	-	125,232
-	-	-	-	-	13,321	-	13,321
-	-	-	-	-	2,518	-	2,518
-	-	-	-	-	140	-	140
-	-	-	-	-	26,957	(4,099)	22,858
-	-	-	-	-	32,792	-	32,792
-	-	-	-	-	35,787	-	35,787
-	-	-	-	-	31,681	-	31,681
1,257	271	5,487	3,508	-	445,086	-	445,086
-	-	-	-	-	60,199	-	60,199
-	19,339	16,900	-	-	73,230	-	73,230
-	6,585	16,601	6,639	-	29,825	-	29,825
138,261	164,195	69,984	37,147	34,500	2,359,580	(1,339,604)	1,019,976
\$ 138,261	\$ 164,195	\$ 69,984	\$ 37,147	\$ 34,500	\$ 3,183,451	\$ (1,339,604)	\$ 1,843,847